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**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

**Consolidated Financial Statements
and Supplemental Schedule**

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

JAN 04 2012

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

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KPMG LLP
450 Laurel Street, Suite 1700
Baton Rouge, LA 70801

Independent Auditors' Report

The Board of Trustees Franciscan Missionaries of
Our Lady Health System, Inc.

The Board of Directors Our Lady of the Lake Hospital, Inc.:

We have audited the accompanying consolidated balance sheets of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) as of June 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Our Lady of the Lake Hospital, Inc. and affiliated organizations as of June 30, 2011 and 2010, and the results of their operations, changes in their net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(u) to the consolidated financial statements, the Medical Center has changed its method of accounting for noncontrolling interests in 2011 as a result of the adoption of ASU No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which amended ASC 958, *Not-for Profit Entities*. The June 30, 2010 consolidated financial statements were restated to reflect the new presentation of noncontrolling interests.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information included in the supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such schedule has not been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, accordingly, we express no opinion on it.

KPMG LLP

November 4, 2011

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Consolidated Balance Sheets

June 30, 2011 and 2010

(In thousands)

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 152,778	19,347
Short-term investments	15,214	20,176
Patient accounts receivable, net of allowance for uncollectible accounts of \$32,964 and \$27,062 in 2011 and 2010, respectively	103,585	96,981
Other current assets	47,133	43,908
Total current assets	318,710	180,412
Assets limited as to use, net of current portion	482,003	403,664
Property and equipment, net	452,999	433,931
Other assets	37,342	32,227
Total assets	\$ 1,291,054	1,050,234
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 9,186	48,130
Current portion of capital lease obligations	1,723	2,117
Accounts payable	28,318	33,629
Other current liabilities	90,434	74,745
Total current liabilities	129,661	158,621
Professional and general liabilities	3,188	3,482
Long-term debt, excluding current installments	211,335	181,222
Capital lease obligations, excluding current installments	1,683	2,556
Accrued pension cost	108,138	149,527
Other long-term liabilities	19,536	546
Total liabilities	473,541	495,954
Net assets:		
Unrestricted	791,619	527,954
Temporarily restricted	17,144	17,225
Permanently restricted	5,300	5,300
Total net assets attributable to Our Lady of the Lake Hospital, Inc.	814,063	550,479
Noncontrolling interests	3,450	3,801
Total net assets	817,513	554,280
Commitments and contingencies		
Total liabilities and net assets	\$ 1,291,054	1,050,234

See accompanying notes to consolidated financial statements.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Consolidated Statements of Operations

Years ended June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets:		
Unrestricted revenues:		
Net patient service revenue	\$ 820,520	667,146
Other revenue	62,596	60,073
Equity in income from equity investees, net	4,306	5,233
Total unrestricted revenues	<u>887,422</u>	<u>732,452</u>
Net assets released from restrictions used for operations:		
Satisfaction of program restrictions	4,943	6,038
Expiration of time restrictions	125	118
Total net assets released from restrictions used for operations	<u>5,068</u>	<u>6,156</u>
Total unrestricted revenues and other support	<u>892,490</u>	<u>738,608</u>
Operating expenses:		
Salaries and wages	255,118	235,239
Employee benefits	67,304	67,084
Total salaries, wages, and benefits	322,422	302,323
Provision for uncollectible accounts	66,880	66,515
Physician fees	10,657	10,257
Professional services	9,135	11,396
Other services	111,110	102,191
Leases, insurance, and utilities	20,120	18,088
Supplies	143,357	145,185
Other	19,955	—
Depreciation and amortization	27,312	26,891
Interest	10,458	9,537
Total operating expenses	<u>741,406</u>	<u>692,383</u>
Operating income	<u>151,084</u>	<u>46,225</u>

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Consolidated Statements of Operations

Years ended June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Nonoperating gains (losses):		
Investment return	83,025	46,847
Other	(3,492)	(2,758)
Loss on early extinguishment of debt	—	(453)
Total nonoperating gains, net	<u>79,533</u>	<u>43,636</u>
Noncontrolling interests	<u>(650)</u>	<u>(953)</u>
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Our Lady of the Lake Hospital, Inc.	229,967	88,908
Pension related changes other than net periodic pension cost	41,118	(40,699)
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.	<u>(7,419)</u>	<u>(7,593)</u>
Increase in unrestricted net assets	<u>\$ 263,666</u>	<u>40,616</u>

See accompanying notes to consolidated financial statements.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Net assets, beginning of year (as previously reported)	\$ 554,280	508,869
Adjustment to present noncontrolling interests as required by new accounting standard	<u>—</u>	<u>4,051</u>
Net assets, beginning of year (as adjusted)	554,280	512,920
Unrestricted revenues, gains, and other support in excess of expense and losses attributable to Our Lady of the Lake Hospital, Inc.	229,967	88,908
Pension related changes other than net periodic pension cost	41,118	(40,699)
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.	<u>(7,419)</u>	<u>(7,593)</u>
Increase in unrestricted net assets	<u>263,666</u>	<u>40,616</u>
Changes in temporarily restricted net assets:		
Contributions	4,986	6,750
Net assets released from restrictions	<u>(5,068)</u>	<u>(6,156)</u>
Increase (decrease) in temporarily restricted net assets	<u>(82)</u>	<u>594</u>
Change in permanently restricted net assets:		
Contributions	<u>—</u>	<u>400</u>
Increase in permanently restricted net assets	<u>—</u>	<u>400</u>
Change in noncontrolling interest:		
Unrestricted revenues, gains, and other support in excess of expense and losses	650	953
Distributions	(1,001)	(1,852)
Sale of noncontrolling interest	<u>—</u>	<u>649</u>
Change in noncontrolling interest	<u>(351)</u>	<u>(250)</u>
Change in net assets	<u>263,233</u>	<u>41,360</u>
Net assets, end of year	<u>\$ 817,513</u>	<u>554,280</u>

See accompanying notes to consolidated financial statements.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 263,233	41,360
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	27,312	26,891
Provision for uncollectible accounts	66,880	66,515
Loss on sale of property and equipment	1,479	457
Net realized and unrealized gains on assets whose use is limited and investment securities	(80,319)	(43,377)
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.	7,419	7,593
Pension related changes other than net periodic pension costs	(41,118)	40,699
Equity in income from equity investees, net	(4,306)	(5,233)
Contributions restricted for long-term purposes	—	(400)
Loss on early extinguishment of debt	—	453
Changes in operating assets and liabilities:		
Short-term investments	4,962	(2,988)
Receivables	(71,746)	(73,018)
Inventories	(146)	(125)
Prepaid expense and other assets	(1,296)	5,811
Due from affiliates	—	20,221
Accounts payable, accrued expenses, and liabilities	36,404	23,247
Professional and general liabilities	(294)	16
Net cash provided by operating activities	<u>208,464</u>	<u>108,122</u>
Cash flows from investing activities:		
Decrease in cash and government securities held as collateral under securities lending transactions	121	194
Capital expenditures	(52,892)	(54,890)
Proceeds from sale of property and equipment	34	85
Distributions and other changes in investment in equity investees	3,875	387
Change in assets limited as to use	(1,166)	(9,487)
Acquisition of other assets	(6,084)	—
Net cash used in investing activities	<u>(56,112)</u>	<u>(63,711)</u>

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from financing activities:		
Decrease in liability under securities lending transactions	\$ (121)	(194)
Repayment of long-term debt	(8,831)	(8,302)
Repayment of capital lease obligations	(1,549)	(2,121)
Proceeds from restricted contributions	—	400
Proceeds from issuance of bonds	—	25,000
Repayments on lines of credit	—	(42,500)
Net distributions to noncontrolling interests	(1,001)	(1,852)
Capital transfers to Franciscan Missionaries of Our Lady Health System, Inc.	(7,419)	(7,593)
Net cash used in financing activities	<u>(18,921)</u>	<u>(37,162)</u>
Net increase in cash and cash equivalents	133,431	7,249
Cash and cash equivalents, beginning of year	<u>19,347</u>	<u>12,098</u>
Cash and cash equivalents, end of year	<u>\$ 152,778</u>	<u>19,347</u>

See accompanying notes to consolidated financial statements.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands)

(1) Organization and Summary of Significant Accounting Policies

Our Lady of the Lake Hospital, Inc. (d.b.a. Our Lady of the Lake Regional Medical Center – herein, the “Medical Center”) is a not-for-profit, nonstock, membership corporation of which Franciscan Missionaries of Our Lady Health System, Inc. (FMOLHS) is the sole member and has sole voting control. The Medical Center is currently licensed for 729 beds and is located in Baton Rouge, Louisiana.

Other significant controlled affiliates of FMOLHS include the corporations that operate Our Lady of Lourdes Regional Medical Center (Lourdes) in Lafayette, Louisiana, St. Francis Medical Center (St. Francis) in Monroe, Louisiana, and Our Lady of the Lake Ascension Community Hospital, Inc. (d.b.a. St. Elizabeth Hospital) in Gonzales, Louisiana. FMOLHS is a wholly owned subsidiary of Franciscan Missionaries of Our Lady in Baton Rouge, Louisiana (FMOL).

The consolidated financial statements include the accounts of the Medical Center, including Our Lady of the Lake Foundation (the Foundation), an entity that is organized exclusively for charitable, religious, scientific, and educational purposes, and the Medical Center’s wholly owned and majority owned subsidiaries and other controlled affiliates, which include the following:

- Our Lady of the Lake College, Inc. (the College), a not-for-profit entity that is organized as a health-service degree-granting institution;
- Our Lady of the Lake Assumption Community Hospital, Inc. (d.b.a. Assumption Hospital), a not-for-profit subsidiary of the Medical Center, currently licensed for 15 beds as a Critical Access Hospital;
- Perkins Plaza Medical Arts Development, LLC, a taxable, 51% owned subsidiary of the Medical Center, a property management company that rents facilities to an ambulatory surgery center;
- Nuclear Imaging, LLC, a taxable, 67% owned subsidiary of the Medical Center, a positron emission tomography (PET) imaging company;
- Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc., entities organized to develop, construct, and manage the operations of living facilities for the elderly and handicapped of the Greater Baton Rouge area;
- Ollie Steele Burden Manor, Inc., an entity that operates two nursing homes in Baton Rouge;
- Perkins Plaza Imaging Development, LLC, a taxable, 61% owned subsidiary of the Medical Center, a property management company that rents facilities to an imaging center;
- Perkins Plaza Imaging Center, LLC, a taxable, 60% owned subsidiary of the Medical Center, a radiological imaging center;
- St. Bernard Health Center, a wholly owned subsidiary of the Medical Center, a healthcare clinic; and
- Our Lady of the Lake Physician Group, LLC, a wholly owned subsidiary of the Medical Center, an entity that operates physician clinics throughout the Greater Baton Rouge area.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands)

In addition, the Medical Center also has ownership interests in the following organizations, the investments in which are accounted for using the equity method in recognition of the Medical Center's influence over operations and/or significant ownership interest:

- 50% investment in Convenient Care, LLC, an after-hours clinic;
- 13.75% investment in Regional Eye Surgery Center, an ambulatory center;
- 29% investment in Baton Rouge Physical Therapy-Lake, an outpatient rehabilitation center;
- 46% investment in Perkins Plaza Ambulatory Surgery Center (Perkins Plaza ASC), an outpatient surgery center;
- 49% investment in Surgical Specialty Center of Baton Rouge, a surgical specialty hospital; and
- 48% investment in Capital Area Shared Services Organization, LLC, a provider of healthcare technology services

The significant accounting policies used by the Medical Center in preparing and presenting its consolidated financial statements follow:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Medical Center, its wholly owned and majority owned subsidiaries, and other affiliates whose operations are significantly controlled by the Medical Center or its Board of Directors. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, certain investments in alternative funds, useful lives of fixed assets, and the actuarially determined benefit liability related to the Medical Center's pension plan and postretirement health plan. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

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(In thousands)

(c) Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts held as short-term investments and assets limited as to use.

(d) Investments and Investment Return

The Medical Center's investments, as outlined in note 2, are held in two distinct groups:

- The Medical Center's proportionate interest in the FMOLHS aggregate investment "pool." The Medical Center does not make individual investment decisions for these investments and relies on the centralized treasury functions of FMOLHS to make routine investment decisions consistent with FMOLHS's defined policies regarding credit risk, rate risk, maturity ladder, return-on-investment targets, and other criteria; and
- Investments held individually in the Medical Center's name, managed by the Medical Center's treasury function.

Pooled investments held at FMOLHS are comprised of a diversified portfolio of debt securities, equity securities, and other investments. Current value of the Medical Center's share in the "pool" is equal to contributions to and withdrawals from the pool, plus the Medical Center's pro rata share of investment gains or losses.

The Medical Center's investments in equity securities with readily determinable fair values and all investments in debt securities, except for investments in the common stock of equity investees accounted for using the equity method, are recorded at fair value. The estimated fair value of these investments is based on quoted market prices.

Unrealized gains and losses on investments recorded at fair value, alternative assets recorded at net asset value, changes in the carrying value of alternative assets recorded on the equity method, and the pro rata share of investment gains or losses in the pooled investments held at FMOLHS are included in the consolidated statements of operations as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or law. Dividend, interest, and other investment income are recorded as increases in unrestricted net assets unless the use is restricted by donor. Donated investments are recorded at fair value at the date of receipt.

(e) Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (average cost method) or market.

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(In thousands)

(f) *Assets Limited as to Use*

Assets limited as to use include the following:

- Assets set aside by the board of directors for future capital acquisitions, capital improvements, securities lending, and debt service, over which the board retains control and may at its own discretion subsequently use for other purposes.
- Assets held by trustees under indenture agreements, self-insurance trust arrangements, and the terms of donor restrictions.

Amounts required to satisfy current requirements for the payment of current construction costs and debt service costs are classified as current assets in the accompanying consolidated balance sheets.

(g) *Components of Net Assets*

Net assets, revenues, and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Medical Center and changes therein are classified and reported as follows:

Unrestricted Net Assets – Unrestricted net assets are net assets whose use is not restricted by donors, even though their use may be limited in other respects such as by contracts or by board designation.

Temporarily Restricted Net Assets – Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of the Medical Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets – Permanently restricted net assets are net assets subject to donor-imposed stipulations that are maintained permanently by the Medical Center. Generally, the donors of these assets permit the Medical Center to use all or part of the income earned on related investments for specific or general purposes.

Unrealized gains and losses are recorded as temporarily restricted net assets if the terms of the gift restrict the use of the income. Permanently restricted net assets are increased if the terms of the gift that gave rise to the investment requires the unrealized gain be added to the principal of a permanent endowment.

Generally, losses on the investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets, but can be restored through subsequent investment gains.

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June 30, 2011 and 2010

(In thousands)

(h) Bond Issuance Costs

Bond issuance costs are being amortized over the terms of the related bond issues using a method that approximates the interest method. The costs of letters of credit and standby purchase agreements are being amortized over the term of the related agreement using a method that approximates the interest method. Accumulated amortization was \$2,149 and \$1,929 at June 30, 2011 and 2010, respectively.

(i) Property and Equipment

Property and equipment, including leasehold improvements, are stated at cost. Depreciation is computed primarily on the straight-line method based upon the shorter of the estimated useful lives of the assets or the lease term. Equipment under capital leases is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life. Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, unless explicit donor stipulations specify asset usage. Gifts of long-lived assets with explicit restrictions that specify asset usage and gifts of cash or other assets earmarked for long-lived assets are reported as restricted support. Absent explicit donor time stipulations addressing the long-lived assets, the Medical Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions restricted for the purchase of property and equipment for which restrictions are met within the same year as the contributions are received are reported as increases in unrestricted net assets in the accompanying consolidated financial statements.

(j) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired, or goodwill, included in other assets, is the amount by which purchase price exceeds the fair value of assets acquired. Accumulated amortization for goodwill was \$2,778 at both June 30, 2011 and 2010.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-07, *Not-for-Profit (NFP) Entities: Mergers and Acquisitions*, which amends ASC 958, *Not-for-Profit Entities*. Under these standards, cost in excess of net assets acquired, or goodwill, and indefinite-lived intangible assets are no longer amortized but are reviewed for impairment annually or more frequently if circumstances indicate potential impairment. Separable intangible assets that are not deemed to have an indefinite life continue to be amortized over their useful lives. Cost in excess of net assets acquired prior to July 1, 2010 was amortized through June 30, 2010, at which time amortization ceased and a transition goodwill impairment test was performed. Impairment charges resulting from the initial application of the new rules would have been classified as a cumulative change in accounting principal. The Medical Center was not required to record an impairment charge upon completion of the initial impairment test.

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June 30, 2011 and 2010

(In thousands)

Cost in excess of net assets acquired is reviewed for impairment at least annually. The cost in excess of net assets acquired impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including cost in excess of net assets acquired). If the fair value of the reporting unit is less than its carrying value, an indication of cost in excess of net assets acquired impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's cost in excess of net assets acquired over the implied fair value of that cost in excess of net assets acquired. The implied fair value of cost in excess of net assets acquired is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit cost in excess of net assets acquired. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. No impairment loss was required to be recognized in 2011.

(k) Capitalization of Interest

The Medical Center capitalizes the interest cost of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset. The Medical Center capitalized net interest expense of \$291 and \$1,433 for the years ended June 30, 2011 and 2010, respectively.

(l) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Medical Center first compares the undiscounted future cash flows expected to be generated by the assets to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party appraisals, as considered necessary.

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the asset and liability sections of the accompanying consolidated balance sheets.

(m) Estimated Workers' Compensation, Professional Liability, and Employee Health Claims

The provisions for estimated workers' compensation, professional liability and employee health claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates incorporate the Medical Center's past experience, as well as other considerations including the nature of claims, industry data, relevant trends and/or the use of actuarial information.

**OUR LADY OF THE LAKE HOSPITAL, INC.
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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands)

(n) Consolidated Statements of Operations

Transactions deemed to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Investment return, consisting of dividends and interest earned on investments, as well as realized and unrealized gains and losses on the investment portfolio, and gains and losses on asset disposals are reported as nonoperating gains or losses.

The consolidated statements of operations include unrestricted revenues, gains, and other support in excess of expenses and losses, which is an indicator of financial performance.

Changes in unrestricted net assets that are excluded from unrestricted revenues, gains, and other support in excess of expenses and losses include permanent transfers of assets to and from affiliates for other than goods and services, pension related changes other than net periodic pension cost, the cumulative effects of accounting changes, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets).

(o) Net Patient Service Revenue

Net patient service revenue is recognized as services are performed and is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payers are accrued on an estimated basis in the period the related services are rendered and are adjusted as final settlements are determined.

(p) Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

The Medical Center maintains records to identify and monitor the level of charges forgone that are associated with the charity care it provides. Charges forgone, based on established rates, totaled \$13,835 and \$13,814 for the years ended June 30, 2011 and 2010, respectively.

(q) Income Taxes

The Medical Center is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in IRC Section 501(c)(3). Certain of the Medical Center's subsidiaries are subject to Federal and state income taxes, provisions for which have been reflected in the accompanying consolidated financial statements. The amounts of such provisions are not material.

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The Medical Center recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(r) Fair Value Measurements

The Medical Center applies ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes an enhanced framework for measuring fair value and expands disclosures about fair value measurements, including those required for certain investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate, and other funds. ASC Topic 820 permits, as a practical expedient, for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value pursuant to other requirements of ASC Topic 820.

The Medical Center also follows FASB ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which amended Topic 820. ASU 2010-06 requires that the Medical Center provide additional enhanced disclosures related to its fair value measurements.

The Medical Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Medical Center determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(s) Fair Value Option

ASC Subtopic 825-10, *Financial Instruments – Overall* gives the Medical Center the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. The Medical Center has not elected to apply the fair value option to any assets or liabilities.

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(i) New Accounting Pronouncements

Recently Adopted

In January 2010, the FASB issued ASU 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which amends ASC 958, *Not-for-Profit Entities*. The amendments in this standard provide guidance on accounting for combinations of NFPs. It defines a merger of NFPs as one in which one NFP cedes control to another NFP. In the case of a merger, the carryover method applies, which requires combining the assets and liabilities as of the merger date. Combinations are accounted for as acquisitions when consideration is transferred to the former owner or designee. Acquisitions are accounted for by applying fair market values to acquired assets and liabilities, including identifiable intangible assets and the recognition of goodwill in the case of NFPs with operations not predominantly supported by contributions. Any resulting goodwill is analyzed for impairment annually or if business conditions indicate an analysis is necessary, and is no longer amortized. The guidance requires that noncontrolling ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated balance sheet within net assets, but separate from the parent's net assets. In addition, the standard requires that a consolidated schedule of changes in net assets attributable to the parent and noncontrolling interests be provided for each class of net assets for which a noncontrolling interest exists during the reporting period. The Medical Center adopted ASU 2010-07 in fiscal year 2011, and has restated its previously presented fiscal 2010 consolidated financial statements to reflect the new presentation of noncontrolling interests.

In August 2008, the FASB issued ASC Topic 958, *Classification of Donor-Restricted Endowment Funds, Subject to UPMIFA* which provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and also requires disclosures about endowment funds (both donor-restricted and board-designated). The State of Louisiana adopted UPMIFA with an effective date of July 1, 2010. The Medical Center's adoption of ASC Topic 958, including the State of Louisiana's adoption of UPMIFA, did not have a significant impact on the consolidated financial statements.

Recently Issued

The FASB issued ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*, in August 2010. ASU 2010-23 amends ASC Subtopic 954-605, *Health Care Entities – Revenue Recognition* to require that cost be used as the measurement basis for charity care disclosure purposes. The method used to estimate such costs as well as any funds received to offset or subsidize charity services provided should also be disclosed. The Medical Center expects to adopt this ASU in fiscal year 2012.

The FASB issued ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, in August 2010. ASU 2010-24 amends ASC Subtopic 954-450, *Health Care Entities – Contingencies*, to clarify that a health care entity should not net insurance recoveries against a related liability and the claim liability should be determined

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without consideration of insurance recoveries. The ASU is effective for the Medical Center's fiscal year 2012.

The FASB issued ASU 2011-08, *Testing Goodwill for Impairment* in September 2011. ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step test for impairment of goodwill as described in note 1(j). If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. The Medical Center expects to adopt this ASU in fiscal 2012.

In July 2011, the FASB issued ASU 2011-01, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This ASU will change the Medical Center's presentation of provision for uncollectible accounts in the consolidated statements of operations from operating expenses to a deduction from net patient service revenue. It also expands disclosures regarding policies for recognizing revenue, assessing contra revenue line items, and activity in the allowance for uncollectible accounts. The ASU is effective for the Medical Center's fiscal year 2013.

(u) Current Economic Environment

The U.S. economy appears to be slowly recovering from the downturn of the past several years. The Medical Center management monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. While the Medical Center was able to achieve certain objectives of importance in the current economic environment, management recognizes that economic conditions may continue to impact the Medical Center in a number of ways, including (but not limited to) uncertainties associated with U.S. financial system reform and rising self-pay patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2010. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant (and potentially unprecedented) capital investment in healthcare information technology (HCIT);
- Continuing volatility in the state and federal government reimbursement programs;
- Lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, changes in combined state/federal disproportionate share payments, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system;
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of HCIT and the transition to ICD-10; and

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- Significant potential business model changes throughout the healthcare ecosystem, including within the healthcare commercial payor industry.

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Medical Center's financial position and operating results.

(2) Short-Term Investments and Assets Limited as to Use

Short-term investments consist of the following:

	<u>2011</u>	<u>2010</u>
Pooled investments held at FMOLHS	\$ 15,214	12,445
Marketable equity securities	—	7,730
Fixed income securities	—	1
	<u>\$ 15,214</u>	<u>20,176</u>

The composition of assets limited as to use at June 30, 2011 and 2010 is as follows:

	<u>2011</u>				
	<u>Board designated for capital</u>	<u>Self-insurance trust funds</u>	<u>Trusteed bond funds</u>	<u>Other</u>	<u>Total</u>
Pooled investments held at FMOLHS	\$ 446,920	—	—	—	446,920
Cash and cash equivalents	26,255	1,437	11,718	1,783	41,193
Marketable equity securities	—	—	—	3,812	3,812
Fixed income securities	—	—	—	2,796	2,796
Accrued interest receivable	403	3	—	—	406
	<u>473,578</u>	<u>1,440</u>	<u>11,718</u>	<u>8,391</u>	<u>495,127</u>
Less amounts classified as current	825	—	11,718	581	13,124
Noncurrent portion	<u>\$ 472,753</u>	<u>1,440</u>	<u>—</u>	<u>7,810</u>	<u>482,003</u>

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		2010				
		Board designated for capital	Self-insurance trust funds	Trusteed bond funds	Other	Total
Pooled investments held at						
FMOLHS	\$	356,880	—	—	—	356,880
Cash and cash equivalents		15,767	1,438	11,464	1,875	30,544
Marketable equity securities		—	—	—	3,223	3,223
Fixed income securities		—	—	20,460	2,262	22,722
Accrued interest receivable		271	1	—	—	272
		372,918	1,439	31,924	7,360	413,641
Less amounts classified as current		9,219	—	—	758	9,977
Noncurrent portion	\$	363,699	1,439	31,924	6,602	403,664

(a) Board Designated for Capital

In accordance with Board approval, the Medical Center has designated assets to fund future capital acquisitions and improvements.

Board designated for capital investments are held in a JP Morgan Chase Bank (the custodian) custodial account. Through usage of unitized accounting, these investments are segregated from those of Lourdes and St. Francis. Investments held as board designated for capital are managed by several money managers, which focus on different investment strategies and provide diversity to the investments.

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(b) FMOLHS Investments

FMOLHS invests in alternative assets such as hedge funds, private equity funds, and commingled funds. When FMOLHS's investment in alternative assets represents investments organized as corporations, or trusts.

The composition of investments held at FMOLHS is as follows:

	<u>2011</u>	<u>2010</u>
Cash	\$ 37,795	59,815
Equity securities:		
U.S. companies	50,511	64,259
International companies	62,516	57,059
Real assets	32,825	24,281
Fixed income securities:		
U.S. government Guaranteed	32,417	15,491
U.S. agency	4,793	3,873
Mortgage-backed	26,668	35,626
Corporate	29,023	21,706
Municipal	1,527	1,043
Other	6,184	2,040
Alternative asset funds:		
Hedge funds	185,255	138,666
Private equity funds	72,963	46,116
Commingled funds:		
Equity funds	85,413	79,411
Fixed income funds	8,540	49,570
Real asset funds	29,067	25,395
Total	\$ <u>665,497</u>	<u>624,351</u>

The Medical Center has a 69% and 59% ownership in these investments for the years ended June 30, 2011 and 2010, respectively.

(c) Self-insurance Trust Funds

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (see note 18).

(d) Trusteed Bond Funds

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to the Medical Center's bond obligations. The trusteed bond funds consist of principal and interest funds in the amounts of \$11,718 and \$11,464 at June 30, 2011 and 2010, respectively. The trusteed bond funds included \$20,460 at June 30, 2010, of construction funds arising from the 2005 and 2009 bond issues (see note 9) for which the amounts were used to fund costs of construction and

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installation of equipment and facilities to benefit the Medical Center. No construction funds were remaining at June 30, 2011.

The bond funds are used for the payment of principal and/or interest on the Series 1998, 2005, 2008, and 2009 bonds, as well as to fund new capital projects financed by that issue. Amounts classified as current represent funds deposited to pay related debt service costs classified as current liabilities.

(e) Other

Other assets limited as to use as of June 30, 2011 and 2010 consist of cash on deposit held for the following purposes:

	<u>2011</u>	<u>2010</u>
Scholarships – limited by donor	\$ 169	229
Health care services – limited by donor	6,952	5,841
Resident deposits	104	109
Escrow, security deposits, and surplus cash	258	255
Capital improvement – limited by grantor agency	908	926
	<u>8,391</u>	<u>7,360</u>
Less amounts classified as current	581	758
Noncurrent portion	<u>\$ 7,810</u>	<u>6,602</u>

All investments are considered “trading” for accounting purposes. All unrestricted investment income, including both realized and unrealized gains and losses, is included in unrestricted revenues, gains, and other support in excess of expenses and losses. The investment return for the years ended June 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Dividends and interest (net of expenses of \$1, 533 and \$1,322, respectively)	\$ 2,706	3,470
Realized and unrealized gains, net	80,319	43,377
Investment return	<u>\$ 83,025</u>	<u>46,847</u>

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets, statements of operations, and statements of change in net assets.

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(3) Other Current Assets

The composition of other current assets at June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Other receivables	\$ 10,792	12,063
Inventories	10,771	10,625
Prepaid expenses and other current assets	12,446	11,243
Assets limited as to use – required for current liabilities	13,124	9,977
	<u>\$ 47,133</u>	<u>43,908</u>

(4) Property and Equipment

A summary of property and equipment as of June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>	<u>Estimated useful lives</u>
Land	\$ 75,885	77,672	—
Land improvements	11,030	10,569	2 – 20 years
Buildings and building improvements	414,830	373,249	5 – 40 years
Fixed equipment	87,961	67,003	5 – 20 years
Movable equipment	168,882	156,103	3 – 20 years
Construction in progress	17,976	41,164	
	<u>776,564</u>	<u>725,760</u>	
Less accumulated depreciation	<u>323,565</u>	<u>291,829</u>	
	<u>\$ 452,999</u>	<u>433,931</u>	

At June 30, 2011, the Medical Center was obligated under purchase commitments of \$252,693 relating to the completion of various construction projects. Included in accounts payable at June 30, 2011 and 2010, respectively, is \$241 and \$3,009 related to the completion of various construction projects and equipment purchases.

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(5) Other Assets

The composition of other assets at June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Unamortized bond issuance costs, net of accumulated amortization	\$ 3,359	3,504
Investment in equity investees	27,955	27,524
Other	6,028	1,199
	<u>\$ 37,342</u>	<u>32,227</u>

(6) Investment in Equity Investees

The Medical Center's investment in equity investees at June 30, 2011 and 2010, included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2011 and 2010 are as follows:

<u>2011</u>	<u>Ownership interest</u>	<u>Investment in equity investees</u>	<u>Equity in income (deficit) from equity investees</u>
Convenient Care, LLC	50%	\$ 2,079	443
Regional Eye Surgery Center	14	193	229
Baton Rouge Physical Therapy – Lake	29	468	170
Perkins Plaza ASC	46	721	293
Surgical Specialty Center of Baton Rouge	49	24,028	3,186
Capital Area Shared Services Organization	48	466	(15)
		<u>\$ 27,955</u>	<u>4,306</u>

<u>2010</u>	<u>Ownership interest</u>	<u>Investment in equity investees</u>	<u>Equity in income from equity investees</u>
Convenient Care, LLC	50%	\$ 1,788	1,386
Surgi-Center Limited Partnership	12	—	70
Regional Eye Surgery Center	14	149	276
Baton Rouge Physical Therapy – Lake	29	450	176
Perkins Plaza ASC	46	896	221
Surgical Specialty Center of Baton Rouge	49	24,241	3,104
		<u>\$ 27,524</u>	<u>5,233</u>

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Surgical Specialty Center of Baton Rouge

The Medical Center has a 49% interest in Surgical Specialty Center of Baton Rouge, a specialty hospital located in Baton Rouge, Louisiana. At June 30, 2011 and 2010, its major assets were property and equipment, which had a net book value of \$12,661 and \$11,519, respectively, and goodwill, which has a gross book value of \$22,015 at June 30, 2011 and 2010. Revenue consists primarily of fees for surgical services.

The cost of the Surgical Specialty Center of Baton Rouge investment in excess of the Medical Center's equity in the net assets at date of acquisition amounts to \$22,015, and such excess was being amortized to through June 30, 2010. Amortization expense for the year ended June 30, 2010 was \$1,468. Cost in excess of net assets acquired was subject to goodwill impairment test. The Medical Center was not required to record an impairment charge upon completion of the initial impairment test.

(7) Lines of Credit

At June 30, 2011 and 2010, the Medical Center had four unsecured working capital lines of credit expiring June of 2012 with banks in the aggregate amount of \$35,000, bearing interest at variable rates. There were no outstanding amounts at June 30, 2011 and 2010.

(8) Other Current Liabilities

The composition of other current liabilities at June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Accrued salaries and related expenses	\$ 26,581	22,210
Due to third-party payors	37,328	29,912
Accrued interest	3,086	3,256
Accrued expenses and other current liabilities	22,114	17,381
Due to affiliates	1,325	1,986
	<u>\$ 90,434</u>	<u>74,745</u>

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(9) Long-term Debt

A summary of long-term debt at June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Obligated Group bonds:		
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, \$72,560 tax-exempt bonds due in varying installments through fiscal year 2026, with interest fixed at rates ranging from 5.50% to 5.75%	\$ 30,007	34,069
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998B, \$31,050 tax-exempt bonds due in varying installments through fiscal year 2017, with interest fixed at rates ranging from 3.50% to 5.00%	27,050	31,050
Louisiana Public Facilities Authority Hospital Bonds Series 2005A, \$80,000 tax-exempt bonds due in varying installments from fiscal year 2032 through fiscal year 2037, with interest fixed at rates ranging from 5.00% to 5.25%	37,534	37,534
Louisiana Public Facilities Authority Hospital Bonds Series 2005B, \$50,000 tax-exempt bonds due in varying installments from fiscal year 2014 through fiscal year 2031, which bear interest at a variable rate (0.09% and 0.26% at June 30, 2011 and 2010, respectively)	39,453	39,453
Louisiana Public Facilities Authority Hospital Bonds Series 2005C, \$50,000 tax-exempt bonds due in varying installments from fiscal year 2014 through fiscal year 2031, with interest fixed at rates ranging from 4.00% to 6.75%	22,193	22,193

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	<u>2011</u>	<u>2010</u>
Louisiana Public Facilities Authority Hospital Bonds Series 2005D, \$88,325 bonds due in varying installments through fiscal year 2029, which bear interest at a variable rate (0.04% and 0.15% at June 30, 2011 and 2010, respectively)	5,904	6,115
Louisiana Public Facilities Authority Hospital Bond Series 2008A, \$47,185 bonds due in varying installments through fiscal year 2026, which bear interest at a variable rate (0.08% and 0.27% at June 30, 2011 and 2010, respectively)	23,117	23,199
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2009A, \$125,000 bonds due in varying installments from fiscal year 2029 through fiscal year 2040, with interest fixed at rates ranging from 6.62% to 6.75%	25,000	25,000
Total obligated group bonds	210,258	218,613
Add unamortized premium	1,278	1,411
Total obligated group bonds	211,536	220,024
Other debt:		
Mortgage payable in monthly installments of \$23, including interest at 9.0%, through May 1, 2033, secured by land, building and equipment	2,609	2,646
Mortgage payable in monthly installments of \$33, including interest at 6.8%, through December 2012, secured by land, building and equipment	3,209	3,375
Mortgage payable in monthly installments of \$29, including interest at 6.9% through April 2016 with a lump sum due at this time, secured by land and building	3,167	3,307
Total other debt	8,985	9,328
Total long-term debt	220,521	229,352
Less current installments of long-term debt	9,186	48,130
	<u>\$ 211,335</u>	<u>181,222</u>

FMOLHS and its affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture. FMOLHS directed the

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proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the Trustee for each of the affiliates to support each affiliate's allocated portion of the bonds. However, as a member of the Obligated Group, the Medical Center is contingently liable for all debt outstanding under the Master Indenture. As of June 30, 2011 and 2010, the Medical Center was contingently liable for \$211,536 and \$220,024, respectively, which represents total system-wide indebtedness of \$519,256 and \$534,252, respectively, less the related amounts treated as direct obligations of the Medical Center.

The Master Trust Indenture covering the bond issues contains several covenants, including a current ratio, debt service coverage ratio, and leverage ratio. In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions. Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the Obligated Group. None of the bonds are secured by a mortgage on, or security interest in, any real or personal property or any revenues of FMOLHS or its affiliates.

In 2005, FMOLHS completed a system-wide refinancing for the purposes of advance refunding certain 1998A and 1998C bonds and providing additional capital by issuing four series of revenue bonds. The following bond series were issued by the FMOLHS: \$80,000 fixed rate Revenue Bonds (Series 2005A), \$100,000 variable rate Revenue Bonds (Series 2005B and Series 2005C in the amounts of \$50,000 each), and \$89,350 in variable rate Revenue and Refunding bonds (Series 2005D). The variable rate bonds were issued as auction rate securities. The four bond issues total \$269,350, of which approximately \$83,000 represents refunding of existing bonds and the remainder of approximately \$186,000 was designated for capital improvements, including facility modifications and additions and new equipment acquisitions. Of the \$186,000 for construction and property additions, approximately \$100,000 was allocated to the Medical Center.

In May 2008, FMOLHS tendered its 2005B and 2005C auction rate bonds and reissued 2005B and 2005C bonds at weekly variable interest modes. In July and August 2008, the Series 2005D and Convertible Hospital Revenue and Refunding Series 1998B (Series 1998B) auction rate bonds were tendered by FMOLHS and reissued at daily variable interest modes. In August 2008, the 2008A bonds, which were preapproved by the Authority, were issued by FMOLHS. These bonds, issued in the amount of \$47,185, bear interest at a variable rate based upon a weekly index rate and are due in 2025. These bonds refunded \$42,735 of the 1998A bonds and \$3,225 of the 1998C bonds.

In 2009, FMOLHS completed a system-wide issuance of \$125,000 of Hospital Revenue Bonds Series 2009 (the 2009 Series). The proceeds of the 2009 Series were used for (i) acquiring, constructing, and equipping a replacement hospital for Lourdes, (ii) acquiring, constructing and equipping improvement and renovations to the existing Medical Center facilities, to accommodate modern demands for space and utility and building a satellite outpatient facility in Livingston Parish, Louisiana, and (iii) paying the costs of issuance of the bonds.

The Medical Center paid interest of \$10,158 and \$8,863 during the years ended June 30, 2011 and 2010, respectively.

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Aggregate maturities of long-term debt, excluding premiums, at June 30, 2011 are as follows:

Year ending June 30:	
2012	\$ 9,186
2013	9,627
2014	7,462
2015	8,535
2016	10,500
Thereafter	173,933
Total	<u>\$ 219,243</u>

(10) Interest Rate Swaps

FMOLHS uses interest-rate related derivative instruments to manage its exposure related to changes in interest rates on its variable rate debt instruments. FMOLHS does not enter into derivative instruments for any purpose other than cash flow hedging. FMOLHS does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, FMOLHS exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes FMOLHS, which creates credit risk for FMOLHS. When the fair value of a derivative contract is negative, FMOLHS owes the counterparty and, therefore, FMOLHS is not exposed to the counterparty's credit risk in those circumstances. FMOLHS minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest-rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

FMOLHS entered into an interest rate swap agreement with Merrill Lynch Capital Services with respect to the 2005D refunding series. Such agreement is intended to reduce the impact of changes in interest rates on the variable rate debt. The swap agreement effectively changes FMOLHS' interest rate exposure on the 2005D variable rate debt to a fixed rate of 3.53%.

In 2005, FMOLHS also obtained preapproval from the Louisiana Public Facilities Authority for the issuance of revenue refunding bonds in 2008 to advance refund the approximately \$48,000 of 1998A and 1998C bonds. In 2005, FMOLHS entered into a forward starting interest rate swap agreement with Goldman Sachs Capital Markets to effectively change FMOLHS' interest rate exposure on the 2008 bonds once issued from a variable rate to a fixed rate of 3.66%.

In June 2007, FMOLHS entered into two Constant Maturity Swaps (CMS) with Merrill Lynch. Under these swap agreements, FMOLHS receives variable rate payments based on the ten-year International Swaps and Derivatives Association Inc. (ISDA) swap rate and makes variable rate payments based on

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one-month LIBOR. The total notional amount of the first swap is \$88,325, with an effective date of July 1, 2008, and the total notional amount of the second swap is \$49,075, with an effective date of May 29, 2008.

Because the swap agreements are the obligation of the entire Obligated Group, changes in the fair value of the interest rate swap agreements are reported in the consolidated financial statements of FMOLHS and are not measured at the individual affiliate level; however, the net settlement amount allocated to the Medical Center of \$932 and \$740 during 2011 and 2010, respectively, is included in interest expense in the consolidated statements of operations. The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements of FMOLHS and are marked to fair value through the consolidated statements of operations.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets, restricted by time and purpose, at June 30, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Healthcare services	\$ 6,713	7,820
Elderly housing	8,039	8,162
Educational services	2,392	1,243
	<u>\$ 17,144</u>	<u>17,225</u>

Permanently restricted assets at both June 30, 2011 and 2010 totalled \$5,300, the income from which is restricted for educational services.

Net assets released from restrictions for the years ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Healthcare services	\$ 4,417	4,801
Educational services	125	1,237
Elderly housing	526	118
	<u>\$ 5,068</u>	<u>6,156</u>

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(12) Net Patient Service Revenue

The Medical Center has agreements with governmental and other third-party payers that provide for reimbursement to the Medical Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at established rates for services and amounts reimbursed by third-party payers. A summary of the basis of reimbursement with major third-party payers is as follows:

(a) Medicare

Substantially all acute care services are rendered to Medicare program beneficiaries at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive-determination methodologies. The Medical Center is paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2004. Revenue from the Medicare program accounted for approximately 20% and 21% of the Medical Center's net patient service revenue for the years ended June 30, 2011 and 2010, respectively.

(b) Medicaid

Inpatient services rendered to Medicaid beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors. Additional outlier payments are paid for neonatal intensive care patients with extended lengths of stay. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Medical Center is paid at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits by the Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2004. Revenue from the Medicaid program accounted for approximately 5% and 7% of the Medical Center's net patient service revenue, excluding payments associated with DHH agreement, for the years ended June 30, 2011 and 2010, respectively.

(c) Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates. Outpatient services are paid based on a fee schedule. Revenue from the Blue Cross program accounted for approximately 23% and 20% of the Medical Center's net patient service revenue for the years ended June 30, 2011 and 2010, respectively.

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(d) *Certain Commercial Insurance Carriers, Health Maintenance Organizations, and Preferred Provider Organizations*

Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, prospectively determined per-diem rates, and fee schedules.

The Medical Center's net patient service revenue for the years ended June 30, 2011 and 2010 decreased \$2,853 and increased \$1,546, respectively, due to changes in previously estimated allowances as a result of final settlements, closure on years that are no longer subject to audits, resolution of reviews and investigations, and prior year retroactive adjustments.

As part of its mission to ensure an appropriate supply of medical professionals in its service area and improve graduate medical education in the region, the Medical Center entered into an agreement with the State of Louisiana Department of Health and Hospitals (DHH) and Louisiana State University Health Sciences (LSU) in February 2010. The parties received associated governmental approval of the agreement from the Center for Medicare and Medicaid Services (CMS) on July 13, 2010. Major components of the agreement follow:

- The Medical Center will construct a medical education building (MED) to house LSU training programs (to be donated by the Medical Center to LSU at completion of constructions), expand its clinical capacity by 60 licensed beds, and implement a Trauma Center. The Medical Center has recorded \$19,000 in other long-term liabilities in the consolidated balance sheet as of June 30, 2011 and an associated other expense in the consolidated statement of operations for the year ended June 30, 2011 to reflect its promise to give in accordance with relevant accounting literature, related to the MEB.
- DHH will provide payments under a new reimbursement structure to the Medical Center, which are intended to compensate the Medical Center for incremental costs associated with higher Medicaid and uninsured patient volumes that are generally expected to accompany the Medical Center's increased role in LSU's graduate medical education program.
- During the year ended June 30, 2011, DHH submitted a State Plan Amendment that obligated itself to make supplemental Medicaid payments to the Medical Center equal to a total of \$129,000 for the period October 1, 2009, through June 30, 2011. These amounts were received by the Medical Center during its fiscal 2011 and have been included in net patient services revenue for the year ended June 30, 2011 as a reduction in related contractual and other adjustments.

In the spring of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law by President Obama. The impact of the Health Care Acts is complicated and difficult to predict, but the Medical Center anticipates its reimbursement in the future will be affected by major elements of the Health Care Acts designed to (1) increase insurance coverage, (2) change provider and payor behavior, and (3) encourage alternative delivery models. Many healthcare reform variables remain unknown and are, among other things, dependent on implementation by federal and state governments and reactions by providers, payors,

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employers, and individuals. The Medical Center continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts.

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, the Medical Center must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology. The Medical Center anticipates that its current efforts at implementing an enterprise-wide EHR will enable its compliance with the Meaningful Use objectives mandated in the HITECH legislation.

Presented below is a summary for the years ended June 30, 2011 and 2010 of amounts comprising net patient service revenue:

	<u>2011</u>	<u>2010</u>
Inpatient revenue	\$ 790,750	739,867
Outpatient revenue	651,540	542,152
Gross patient service revenue	1,442,290	1,282,019
Less provisions for contractual and other adjustments	621,770	614,873
Net patient service revenue	<u>\$ 820,520</u>	<u>667,146</u>

(13) Business and Credit Concentrations

The Medical Center grants credit to its patients, most of whom are local residents. The Medical Center generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, and commercial insurance policies). The mix of accounts receivable from patients and third-party payors at June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Medicare	22%	23%
Medicaid	14	11
Blue Cross	17	17
Self-pay	14	13
Managed care/other	33	36
	<u>100%</u>	<u>100%</u>

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(14) Related Party Transactions

(a) FMOLHS

The Medical Center pays fees to FMOLHS for administrative support and oversight. Fees paid totaled \$34,724 and \$30,419 in 2011 and 2010, respectively, and are included in other services expenses in the consolidated statements of operations.

FMOLHS employees are included as covered employees of the Medical Center's defined benefit pension plan (see note 15). For the years ended June 30, 2011 and 2010, FMOLHS' share of the net pension costs was \$2,952 and \$1,886, respectively.

During the years ended June 30, 2011 and 2010, the Medical Center transferred net assets of approximately \$7,419 and \$7,593, respectively to fund its allocated share of capital contributions paid by FMOLHS Information Systems.

There were no other significant transactions between the Medical Center and other FMOLHS affiliates during the years ended June 30, 2011 and 2010, except for the contingent liability related to the systemwide bond debt (see note 8) and participation in the joint insurance program (see note 17).

(b) Franciscan Missionaries of Our Lady-North American Province, Inc.

FMOLHS' members include the members of the Council of the Franciscan Missionaries of Our Lady-North American Province, Inc. (Province). Certain members of the Province are included as covered employees of the Medical Center's defined benefit pension plan (see note 15). For both the years ended June 30, 2011 and 2010, the Province's share of the net pension cost was \$15.

(c) St. Elizabeth Hospital

The Medical Center transferred its investment in St. Elizabeth Hospital to FMOLHS during 2005. For the 2011 and 2010 plan years, employees of St. Elizabeth Hospital are included as covered employees of the Medical Center's defined benefit pension plan (see note 15). For the years ended June 30, 2011 and 2010, St. Elizabeth Hospital's share of the net pension cost was \$2,322 and \$1,624, respectively.

(d) Franciscan Fund

The FMOL Sisters formed the Franciscan Fund (Fund) to support community programs in the operating areas of the FMOLHS hospitals. Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive monies back for supporting its community programs. Grant making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back their specific contribution amounts in the form of a formal grant from the Fund. During 2011 and 2010 the Medical Center made no contributions to the Fund, and recorded no revenues from grants from the Fund.

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(15) Retirement Plans

(a) Defined Benefit Plan

The following table at June 30, 2011 and 2010 sets forth the Plan's changes in benefit obligations, changes in plan assets, and the funded status of the Plan:

	<u>2011</u>	<u>2010</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 359,596	276,038
Service cost	17,210	13,192
Interest cost	19,534	17,691
Plan amendments	—	393
Actuarial (gain) loss	(22,128)	58,920
Benefits paid	(7,773)	(6,638)
Benefit obligation, end of year	<u>\$ 366,439</u>	<u>359,596</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ 210,069	168,774
Actual gain on plan assets	34,371	27,795
Contributions made	27,809	20,138
Benefits paid	(7,773)	(6,638)
Adjustment for prior benefit payment	(6,174)	—
Fair value of plan assets, end of year	<u>\$ 258,302</u>	<u>210,069</u>
Funded status	\$ (108,138)	(149,527)
Amounts recognized in the consolidated balance sheets consist of:		
Accrued pension cost – noncurrent	\$ (108,138)	(149,527)
Unrestricted net assets	61,861	109,114
Prior service cost	354	393
Amounts recognized in unrestricted net assets – net actuarial gain	<u>\$ 62,215</u>	<u>109,507</u>

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Weighted average discount rate	5.75%	5.50%
Rate of compensation increase	3.50 – 4.25%	4.00%

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Net periodic pension cost for the years ended June 30, 2011 and 2010 includes the following components:

	<u>2011</u>	<u>2010</u>
Service cost – benefits earned during the period	\$ 17,210	13,192
Interest cost on projected benefit obligation	19,534	17,691
Expected return on plan assets	(16,454)	(13,193)
Amortization of prior service cost	39	—
Amortization of loss	7,207	4,012
Net periodic pension cost	<u>\$ 27,536</u>	<u>21,702</u>

Other changes in plan assets and benefit obligations recognized in unrestricted net assets are as follows:

	<u>2011</u>	<u>2010</u>
Net actuarial (gain) loss	\$ (40,046)	44,318
Prior service (credit) cost	(39)	393
Adjustment for prior benefit payment	6,174	—
Net actuarial gain	<u>(7,207)</u>	<u>(4,012)</u>
Total recognized in unrestricted net assets	<u>\$ (41,118)</u>	<u>40,699</u>

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Weighted average discount rate	5.50%	6.50%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00

The defined benefit pension plan asset allocation as of the measurement date (June 30, 2011 and 2010) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	<u>2011</u>	<u>2010</u>	<u>Target allocation</u>
Equity securities	32%	31%	36 – 55%
Alternative investments	34	26	15 – 41%
Fixed income	23	30	20 – 30%
Cash	11	13	0 – 5%

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FMOLHS provides investment oversight for the Medical Center's defined benefit plan. Asset allocations and investment performance are formally reviewed quarterly by the FMOLHS Investment Committee (Investment Committee). FMOLHS utilizes an investment advisor, multiple managers for different asset classes, and a separate custodian in managing the pooled funds.

The asset allocation is designed to provide a diversified mix of asset classes, including U.S. and foreign equity securities, fixed income securities, hedge funds, real-estate investment trust, and cash. The investment goals for the pooled funds are to achieve returns in the top half of a representative universe of professionally managed funds with a percentage of equity, fixed income, and alternate investments to be indicative of the asset mix policy of the fund, to exceed the return of a balanced market index weighted to replicate the asset allocation policy of the plan, to exceed the rate of inflation as measured by the Consumer Price Index (CPI) by at least 500 basis points on an annualized basis, to achieve a positive risk adjusted return, and to achieve a rate of return above the current actuarial assumption. Risk management practices include various criteria for each asset class, including measurement against various benchmarks, achievement of a positive risk adjusted return, and investment guidelines for each class of assets which enumerate types of investments allowed in each category.

The asset allocation policy provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving expected long-term rate of return. Historical return patterns and correlations, consensus return forecast and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to assure that the probability of meeting actuarial assumptions is reasonable. The Investment Committee monitors manager performance, rate of return, and risk factors on a quarterly basis and makes required adjustments to achieve expected returns.

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The following tables present the placement in fair value hierarchy of plan assets that are measured at fair value on a recurring basis as of June 30, 2011 and 2010:

		2011			
		Level 1	Level 2	Level 3	Total
Equity securities:					
U.S. companies	\$	24,897	—	—	24,897
International companies		25,033	—	—	25,033
Real assets		10,543	—	—	10,543
Fixed income securities:					
U.S. government guaranteed		951	—	—	951
U.S. agency		—	6,333	—	6,333
Corporate		—	17,877	—	17,877
Municipal		—	742	—	742
Other		7,103	1,615	—	8,718
Comingled funds:					
Equity funds		—	7,932	—	7,932
Real asset funds		—	9,244	—	9,244
Total - categorized	\$	<u>68,527</u>	<u>43,743</u>	<u>—</u>	112,270
Cash					\$ 30,817
Equity investments – not categorized					<u>115,215</u>
					<u>\$ 258,302</u>

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		2010			
		Level 1	Level 2	Level 3	Total
Asset category:					
Equity securities:					
U.S. companies	\$	19,342	—	—	19,342
International companies		18,396	—	—	18,396
Real assets		4,560	—	—	4,560
Fixed Income Securities:					
U. S. government guaranteed		1,053	—	—	1,053
U. S. agency		—	7,637	—	7,637
Corporate		—	14,652	—	14,652
Municipal		—	391	—	391
Other		6,890	1,053	—	7,943
Comingled funds:					
Equity funds		—	5,529	—	5,529
Real asset funds		—	3,874	—	3,874
Total - categorized	\$	<u>50,241</u>	<u>33,136</u>	<u>—</u>	83,377
Cash					35,561
Equity investments - not categorized					<u>91,131</u>
					<u>\$ 210,069</u>

At June 30, 2011 and 2010, the Medical Center's defined benefit pension plan had an accumulated benefit obligation (ABO) of \$317,623 and \$301,868, respectively.

The prior service cost for the defined benefit pension plan that will be amortized from net periodic benefit cost over the next fiscal year is approximately \$39. The net actuarial loss that will be amortized from net assets to periodic benefit cost over the next fiscal year is \$3,517.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of June 30, 2011 are as follows:

Years ending June 30:	
2012	\$ 9,310
2013	10,611
2014	12,145
2015	13,552
2016	15,297
2017 - 2021	105,421

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(b) Defined Contribution Plans

The Medical Center also sponsors 403(b) and 401(k) plans. These defined contribution plans are available to substantially all employees. No contributions are made to the plans by the Medical Center.

Effective July 1, 2006, the defined benefit pension plan was closed to new entrants and a new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan). Substantially all employees of the Medical Center meeting eligibility requirements may participate in the FMOL Plan. The Medical Center may annually elect to make a contribution on behalf of those participants in an amount determined by the Medical Center. Contribution expense of \$3,876 and \$2,489 was recorded for the years ended June 30, 2011 and 2010, respectively.

(16) Functional Expenses

The Medical Center provides health care and other services to residents within its service area. Expenses related to providing these services for the years ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Healthcare services	\$ 551,551	516,763
General and administrative	166,189	151,529
Educational services	21,639	21,058
Fund raising	2,027	3,033
	<u>\$ 741,406</u>	<u>692,383</u>

(17) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments, reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2011 and 2010.

The Medical Center's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Carrying amount</u>	<u>Estimated fair value</u>	<u>Carrying amount</u>	<u>Estimated fair value</u>
Liabilities – long-term debt	\$ 220,521	224,412	229,352	234,655

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(b) Fair Value Hierarchy

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2011 and 2010:

June 30, 2011				
	Level 1	Level 2	Level 3	Total
Marketable equity securities \$	3,812	—	—	3,812
Fixed income securities	—	2,796	—	2,796
Total	\$ 3,812	2,796	—	6,608

June 30, 2010				
	Level 1	Level 2	Level 3	Total
Marketable equity securities \$	10,953	—	—	10,953
Fixed income securities	—	22,722	—	22,722
Total	\$ 10,953	22,722	—	33,675

The following table presents the placement in the fair value hierarchy of the composition of the investments held at FMOLHS that are measured at fair values on a recurring basis as of June 30, 2011 and 2010:

June 30, 2011				
	Level 1	Level 2	Level 3	Total
Equity securities:				
U.S. companies \$	47,499	—	—	47,499
International companies	59,216	—	—	59,216
Real assets	31,046	—	—	31,046
Fixed income securities:				
U.S. government guaranteed	1,454	—	—	1,454
U.S. agency	—	11,482	—	11,482
Mortgage-backed	—	30,834	—	30,834
Corporate	—	1,388	—	1,388
Other	45,983	2,922	—	48,905
Total – categorized	\$ 185,198	46,626	—	231,824
Cash				37,430
Equity investment - not categorized				361,116
				\$ 630,370

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		June 30, 2010			
		Level 1	Level 2	Level 3	Total
Equity securities:					
U.S. companies	\$	61,240	—	—	61,240
International companies		54,379	—	—	54,379
Real assets		23,140	—	—	23,140
Fixed income securities:					
U.S. government guaranteed		3,895	—	—	3,895
U.S. agency		—	15,578	—	15,578
Corporate		—	30,434	—	30,434
Municipal		—	834	—	834
Other		22,032	2,170	—	24,202
Total – categorized	\$	164,686	49,016	—	213,702
Cash					58,097
Equity investment – not categorized					323,230
					<u>\$ 595,029</u>

The Medical Center's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfer into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2011 or 2010.

The investments classified as Level 2 are as follows:

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Medical Center's interest therein, its classification in Level 2 is based on the Medical Center's ability to redeem its interest at or near the date of the consolidated balance sheets. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.
- Bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued.

(c) **Limitations**

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve

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uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(18) Insurance Programs

The Medical Center is qualified under the State of Louisiana medical malpractice program and is self-insured for the first \$100 of professional liability per occurrence; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next \$400 of professional liability up to the present statutory maximum of \$500 per claim (exclusive of additional amounts for future medical expense provided by law). Coverage in excess of such primary coverage is provided by a self-insurance trust fund, which protects the Medical Center against professional and general liability with limits of \$2,000 per claim for professional liability and \$1,000 per claim for general liability and \$6,000 aggregate per year. An umbrella excess liability policy is shared among all FMOLHS affiliates, on a claims-made basis. In addition to professional and general liability coverage, the umbrella excess liability policy also provide automobile, helipad, and employers' liability coverage, all on an occurrence basis. Finally, the Medical Center utilizes a commercial group policy as primary coverage for claims arising against employed physicians. The group policy covers claims between \$500 and \$1,000. For claims exceeding \$1,000, excess coverage is acquired through a series of commercial insurance products with limits equal to the FMOLHS umbrella excess liability structure.

The Medical Center participates together with the other hospitals within FMOLHS in a captive insurance company, Louise Insurance Company, Ltd. (Louise), which is wholly owned by FMOLHS. Louise underwrites the self-insured portion of professional and general liability claims on a claims-made basis. In addition, the Medical Center accrues additional amounts for incurred but not yet reported claims liabilities at each fiscal year-end. Effective July 1, 2004, Louise also underwrites the self-insured portion of workers' compensation claims on an occurrence basis.

The Medical Center's reserve for estimated professional and general liability costs was \$3,188 and \$3,482 as of June 30, 2011 and 2010, respectively. Claim liabilities are estimated at the present value of future claim payments using a discount rate of 3% at June 30, 2011 and 2010.

Prior to July 1, 2004, the Medical Center was self-insured for workers' compensation liability for the first \$200 per claim. The workers' compensation self-insured reserves related to this run out were \$1,004 and \$992 as of June 30, 2011 and 2010, respectively, and are included in other current liabilities in the consolidated balance sheets. Effective July 1, 2004, the Medical Center was insured by Louise for workers' compensation claims for the first \$350 per claim on an occurrence basis and have excess coverage through a third-party insurer. In July 2006, the coverage was increased to \$400. Such amounts are included in noncurrent assets limited as to use in the accompanying consolidated balance sheets as of June 30, 2011 and 2010.

The Medical Center also offers subsidized health insurance to its employees through an employer sponsored self-insured health plan. Effective January 1, 2005, the self-insured plan obligates the Medical Center to pay the first \$200 per claim. Prior to January 1, 2005, the Medical Center was obligated to pay the first \$125 per claim. The health insurance self-insured reserves were \$5,000 and \$5,262 as of June 30, 2011 and 2010, respectively, and are included in other current liabilities in the consolidated balance sheets.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands)

The Medical Center has reflected its estimate of the ultimate liability for known and incurred but not reported claims, including its share of claims to be paid by the captive insurance company, in the accompanying consolidated financial statements. The estimated reserves for workers' compensation and professional and general liability are based on actuarial studies. The estimated reserve for employee healthcare claims is based on actual claim history.

(19) Commitments and Contingencies

(a) Investments

As it relates to alternative assets held by FMOLHS in the investment "pool," the Medical Center is obligated under certain limited partnership agreements for advance funding up to specific levels upon the request of the general partner. See note 2(b).

(b) Lease Commitments

The Medical Center leases equipment under various rental agreements. Rental expense was \$4,034 and \$3,636 for the years ended June 30, 2011 and 2010, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2011 follow:

Year ending June 30:	
2012	\$ 1,736
2013	841
2014	598
2015	503
2016	193
Thereafter	369
	<hr/>
	\$ 4,240
	<hr/>

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands)

At June 30, 2011, the Medical Center was obligated under various capital leases. Future minimum lease payments as of June 30, 2011 are as follows:

Year ending June 30:

2012	\$	1,843
2013		1,071
2014		483
2015		114
2016		78
		<hr/>
Total minimum lease payments		3,589
Less amounts representing interest		183
		<hr/>
Present value of future minimum lease payments		3,406
Less current portion of capital lease obligations		1,723
		<hr/>
Obligations under capital leases excluding current portion	\$	<u><u>1,683</u></u>

The net book value of assets recorded under capital leases as of June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 11,515	11,515
Less accumulated depreciation	<u>(9,345)</u>	<u>(7,611)</u>
	<u>\$ 2,170</u>	<u>3,904</u>

(c) Operating Leases – Lessor

In late 2010, the FASB issued for comment *Proposed Accounting Standards Update – Leases* (Topic 840). After receiving and considering significant feedback, the FASB intends to issue a related final ASU in calendar year 2012. This new guidance is expected to require the Medical Center to recognize virtually all of its leases in the consolidated balance sheet. Assuming the ASU is in fact issued; adoption will cause considerable changes in the presentation of the Medical Center's debt and interest expense in its consolidated financial statements (among other things). Management is reviewing the implications of the proposed ASU for the Medical Center, including potential implications for many complex agreements and arrangements which might be impacted by this potential major accounting change. While that work is ongoing, management is optimistic that there will not be material issues associated with important related matters, such as overall Medical Center credit ratings or future debt covenant compliance.

The Medical Center and its affiliates lease office space and clinical facilities, generally to members of its medical staff, under operating leases. The terms of these leases range from month-to-month to 10 years. Assets held for lease consist of buildings and improvements with an original cost of

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(In thousands)

\$132,652 and \$112,894 at June 30, 2011 and 2010, respectively, and fixed equipment with an original cost of \$11,758 and \$11,715 at June 30, 2011 and 2010, respectively. Total accumulated depreciation was \$46,562 and \$41,577 at June 30, 2011 and 2010, respectively. Future minimum lease payments to be received at of June 30, 2011 are as follows:

Year ending June 30:	
2012	\$ 4,332
2013	3,857
2014	3,666
2015	3,600
2016	2,011
Thereafter	14,179
	<u>\$ 31,645</u>

(d) Perkins Plaza ASC

The Medical Center's subsidiary, Perkins Plaza Medical Arts Development (PPMAD), has a lease with Perkins Plaza ASC, an equity investment, whereby PPMAD receives minimum rent of \$815 per year subject to annual adjustments. Monthly rental installments were \$67 from January 2010 through December 2010 and \$68 beginning in January 2011. The lease expires in January 2015.

(e) Contingent Liabilities

The Medical Center has certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the Medical Center's self-insurance reserves or insurance coverage, and will not materially affect the financial position of the Medical Center or the results of operations.

(f) Regulatory Compliance

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. The Medical Center is subject to these regulatory efforts and has a corporate compliance committee that monitor and respond to regulatory changes and any issues that may arise.

In consultation with legal counsel, management is not aware of other issues that could have a material effect on the Medical Center's financial position or results of operations.

(20) Subsequent Events

The Medical Center has evaluated subsequent events from the consolidated balance sheet date through November 4, 2011, the date the consolidated financial statements were issued, and determined there are no other items to disclose or recognize in the consolidated financial statements as of and for the year ended June 30, 2011.

SUPPLEMENTAL SCHEDULE

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Schedule of Service to the Community

June 30, 2011 and 2010

Unaudited

(In thousands)

The Medical Center participates in government programs, including Medicare, Medicaid, and the TriCare program. Under these programs, the Medical Center provides care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. In some cases, these programs pay the Medical Center at amounts that are less than its cost of providing services.

The following table summarizes the amounts of charges foregone (i.e., contractual allowances) and the estimated losses incurred by the Medical Center due to inadequate payments by these programs and for charity for the years ended June 30, 2011 and 2010. This table does not include discounts offered by the Medical Center under managed care or other such arrangements.

	2011		2010	
	<u>Charges foregone</u>	<u>Net community benefit expense</u>	<u>Charges foregone</u>	<u>Net community benefit expense</u>
Charity care and means-tested programs:				
Charity care	\$ 13,835	6,489	13,814	5,674
Unreimbursed Medicaid	144,678	29,333	113,144	12,040
Unreimbursed Medicare	256,867	14,392	230,925	14,778
Total	<u>\$ 415,380</u>	<u>50,214</u>	<u>357,883</u>	<u>32,492</u>

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Schedule of Service to the Community

June 30, 2011 and 2010

Unaudited

(In thousands)

In addition to community services directly associated with providing hospital-based care, the Medical Center serves the community in numerous other ways. The method for estimating costs of community services was revised for fiscal year 2011 to reflect the Internal Revenue Service's guidelines for Form 990, *Return of Organization Exempt from Income Tax*. The following table for the years ended June 30, 2011 and 2010 summarizes estimated costs to the community services:

	<u>2011</u>	<u>2010</u>
Community benefit at cost:		
Community health improvement services:		
Immunological support	\$ 852	497
Parish Nursing	182	186
LakeLine Direct	1,187	1,226
St. Martha Activity Center	102	41
Elderly services	287	279
Healthcare professions education:		
OLOL College	6,271	6,074
Interns and residents	4,263	2,373
Subsidized health services:		
Assumption Community Hospital	1,429	—
Elderly Housing St. Clare	1,902	2,246
Family education and Children Speciality Service	3,274	1,396
OLOL neighborhood clinic	59	457
COPE and Mental Health Services	6,545	1,159
Palliative care	484	398
St. Francis House	38	—
Medical Home	912	—
Trauma Services	1,367	—
Research:		
Clinical research	611	645
Financial contributions:		
Cash contributions	747	585
Community-building activities:		
Elderly housing complex	611	462
Mary Bird Perkins	100	100
Community clinic	29	29
Medical Education Building	19,000	—
	<u>\$ 50,252</u>	<u>18,153</u>

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Schedule of Service to the Community

June 30, 2011 and 2010

Unaudited

(In thousands)

Community Health Improvement Services

Immunological Support

The Medical Center organized, owns and operates a home which is designed to help the members of the community who have contracted acquired immune deficiency syndrome (AIDS) to deal with the very debilitating physical, social, and psychological problems associated with the disease.

Community Health

To assist in educating the community regarding health related issues, the Medical Center participates in numerous health fairs and sponsors talks to various schools and industry groups regarding such issues as drug abuse and safety in the workplace.

LakeLine Direct

The Medical Center operates a nurse call center, LakeLine Direct, offering complimentary 24-hour nurse advice, health information aid, and physician referral service to the community.

St. Martha Activity Center

The Medical Center provides an activity center located at the elderly housing facility for the residents of the housing facility as well as other elderly community meetings.

Elderly Services

The Medical Center sponsors and incurs the salary of the Director of the HUD housing facility, Pastoral Care Associate and Medical Director of Elderly Services.

Elderly Housing

Ollie Steel Burden Manor, a subsidiary of the Medical Center, operates St. Clare Manor which has 216 total beds, of which 120 are Medicaid licensed.

Health Care Professions Education

OLOL College

In an effort to ensure that an adequate supply of nurses are available for the Baton Rouge community, the Medical Center founded and organized the College. The Medical Center subsidizes the operations of the College with grants.

Interns and Residents

The Medical Center participates in Medicare's Graduate Medical Education through affiliation with Louisiana Medical School and Medical Center of Louisiana at New Orleans to continue to support availability of physicians in future years.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Schedule of Service to the Community

June 30, 2011 and 2010

Unaudited

(In thousands)

Subsidized Health Services

Family Education

The Medical Center promotes a healthy environment for the family through its pediatric programs, which include Kid-Med Clinic, Pediatric Assessment Center and child life programs.

LOL Neighborhood Clinic

The Medical Center operates a Scotlandville Clinic to provide walk-in care for minor illness and injury during evening and weekends.

COPE

The Medical Center provides crisis oriented psychiatric evaluation (COPE) to the community.

Palliative Care

The Medical Center provides palliative care service for patients in the final stage of life and their family members.

Research

Clinical Research

The Medical Center participates in clinical research projects to improve the health and care of patients and community members.

Financial Contributions

Cash Contributions

The Medical Center also organizes employee participation in fund raising for organizations such as Capital Area United Way, March of Dimes of America, Junior Achievement, Cystic Fibrosis and the Community Fund for the Arts. The Medical Center also makes corporate donations to various area community service organizations.

Community-Building Activities

Elderly Housing Complex

The Medical Center operates four elderly housing projects: Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc. and Chateau Louise, Inc. These projects are designed to promote the health, security and happiness of the elderly and handicapped persons of the Greater Baton Rouge area.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Schedule of Service to the Community

June 30, 2011 and 2010

Unaudited

(In thousands)

Mary Bird Perkins

The Medical Center also sponsors the charitable activities of other not-for-profit organizations in Baton Rouge. The Medical Center provides land adjoining the Medical Center to Mary Bird Perkins Cancer Center for its operations and forgoes all rental income for the use of this land.

Community Clinic

The Medical Center provides a building that sponsors a community clinic and foregoes all rental income related to the use of the building.



**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Report on Federal Awards in Accordance with OMB Circular A-133

Year Ended June 30, 2011

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

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KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Our Lady of the Lake Hospital, Inc.:

We have audited the consolidated financial statements of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency and that is described in the accompanying schedule of findings and questioned costs as item 2011-01. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness, but important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express



such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Medical Center in a separate letter dated November 4, 2011.

The Medical Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Medical Center's response and accordingly, we express no opinion on it.

* * * * *

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 4, 2011



KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

**Independent Auditors' Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Board of Trustees
Our Lady of the Lake Hospital, Inc.:

Compliance

We have audited Our Lady of the Lake Hospital, Inc. and affiliated organizations' (the Medical Center) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (Compliance Supplement) that could have a direct and material effect on its major federal programs for the year ended June 30, 2011. The Medical Center's major federal programs are identified in the summary of auditors' results section of the accompanying *schedule of findings and questioned costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Medical Center's management. Our responsibility is to express an opinion on the Medical Center's compliance based on our audit.

The Medical Center's basic consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. which collectively received \$12,508,562 in federal awards which is not included in the Medical Center's schedule of expenditures of federal awards for the year ended June 30, 2011. Our audit, described below, did not include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. because those U.S. Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements described in the Compliance Supplement that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Medical Center's compliance with those requirements.

In our opinion, the Medical Center complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-02.



Internal Control over Compliance

The management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Medical Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02. A significant deficiency in internal control over compliance is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the basic consolidated financial statements of the Medical Center as of and for the year ended June 30, 2011, and have issued our report thereon dated November 4, 2011. Our report states that the consolidating information included in the schedules to the consolidated financial statements is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual organizations. Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

The Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Medical Center's responses and, accordingly, we express no opinion on the responses.



This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 22, 2011, except as to the
paragraph relating to the Schedule of
Expenditures of Federal Awards,
which is as of November 4, 2011

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Federal sponsor/Program title	Federal CFDA number	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures	Loan disbursement
Student Financial Aid Cluster*:							
U.S. Department of Education							
Federal Work-Study Program (FWS)	84.033			\$ 53,580	—	53,580	—
Federal Supplemental Educational Opportunity Grant Program (FSEOG)	84.007			81,195	—	81,195	—
Federal Pell Grant Program (PELL)	84.063			2,436,566	—	2,436,566	—
Federal Direct Student Loans (Direct Loan)	84.268			—	—	—	15,836,922
Academic Competitiveness Grant (ACG)	84.375			25,044	—	25,044	—
Federal Smart Grant (SMART)	84.376			8,000	—	8,000	—
U.S. Department of Health and Human Services							
Scholarships for Disadvantaged Students (SDS)	93.915			1,634	—	1,634	—
American Recovery & Reinvestment Act (ARRA) - SDS	93.407			2,678	—	2,678	—
Total Student Financial Aid Cluster				<u>2,608,697</u>	<u>—</u>	<u>2,608,697</u>	<u>15,836,922</u>
Other Financial Assistance:							
U.S. Department of Housing and Urban Development							
Emergency Shelter Grants Program (ESG)	14.231	not available	City of Baton Rouge	—	10,313	10,313	—
Supportive Housing Program (SHP)	14.235	not available	City of Baton Rouge	—	37,905	37,905	—
Housing Opportunities for Persons with AIDS	14.241	not available	City of Baton Rouge	—	259,479	259,479	—
Total U.S. Department of Housing and Urban Development				<u>—</u>	<u>307,697</u>	<u>307,697</u>	<u>—</u>
U.S. Department of Health and Human Services							
Assumption Community Hospital - Research on Healthcare Costs, Quality and Outcomes	93.226			6,865	—	6,865	—
Assumption Community Hospital - State Rural Hospital Flexibility Program	93.241			1,500	—	1,500	—
Assumption Community Hospital - Small Rural Hospital Improvement Grant Program (SHIP)	93.301			19,458	—	19,458	—
St. Bernard - Medical Assistance Program: Greater New Orleans Community Health Connection (GMOCHC)	93.778			164,342	—	164,342	—
St. Bernard - Centers for Medicare and Medicaid Services Research, Demonstration, and Evaluations: Primary Care Access and Stabilization Grant (PCASG)*	93.779	1MOC30175A	Louisiana Public Health Institute (LPHI)	—	406,614	406,614	—
St. Bernard - Health Care and Other Facilities*	93.887			1,280,079	—	1,280,079	—
Hospital Preparedness Program	93.889	not available	Louisiana Public Health Institute (LPHI)	—	38,009	38,009	—
Assumption Community Hospital - Hospital Preparedness Program	93.889	not available	Louisiana Public Health Institute (LPHI)	—	32,320	32,320	—
Total CFDA				<u>—</u>	<u>70,329</u>	<u>70,329</u>	<u>—</u>
Total U.S. Department of Health and Human Services				<u>1,472,244</u>	<u>476,943</u>	<u>1,949,187</u>	<u>—</u>
U.S. Department of Labor							
Workforce Investment Act (WIA) - Adult Program*	17.258	not available	Local Workforce Investment Boards	—	223,008	223,008	—
Corporation for National and Community Service:							
Senior Companion Program (SCP)	94.016			202,306	—	202,306	—
Total federal expenditures				<u>\$ 4,283,247</u>	<u>1,007,648</u>	<u>\$ 5,290,895</u>	<u>15,836,922</u>

* Denotes a major program.

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center) under programs of the federal government for the year ended June 30, 2011. The Medical Center's basic consolidated financial statements include the operations of Villa St. Francis, Inc., Assisi Village, Inc., Calais House, Inc., and Chateau Louise, Inc. which collectively received \$12,508,562 in federal awards which is not included in the Schedule. The amounts reported as federal expenditures were obtained from the Medical Center's general ledger. Because the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, results of operations, changes in net assets, and cash flows of the Medical Center.

For purposes of the Schedule, federal expenditures include all grants, contracts, and similar agreements entered into directly between the Medical Center, the agencies and departments of the federal government and all subawards to the Medical Center by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The information in the Schedule is presented in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures of federal award programs are recognized on the accrual basis of accounting.

(3) Federal Direct Student Loans

The Medical Center's Federal Direct Student Loans (Direct Loans) included in the Schedule represent loans received by the students during fiscal year 2011 which were not made by the Medical Center.

During the year ended June 30, 2011, the Medical Center expended the following amount of new loans under the Direct Loan Program:

	Federal CFDA number	Amount expended
Unsubsidized Direct Loans	84.268	\$ 7,914,582
Subsidized Direct Loans	84.268	5,540,725
Parents' Loans for Undergraduate Students	84.268	320,262
Parents' Loans for Graduate Students	84.268	2,061,353
Total		<u>\$ 15,836,922</u>

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

(4) Relationship to Consolidated Financial Statements

Federal expenditures are reported in the Medical Center's consolidated financial statements as follows:

Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the Medical Center	\$ 2,854,329
Federal Pell Grant Program – agency transactions	<u>2,436,566</u>
Federal expenditures per the Schedule	<u>\$ 5,290,895</u>

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	<u> x </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> x </u> yes	_____ none reported
Noncompliance material to financial statement noted?	_____ yes	<u> x </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ yes	<u> x </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> x </u> yes	_____ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u> x </u> yes	_____ no

Identification of major programs:

<u>CFDA numbers</u>	<u>Name of federal program or cluster</u>
84.033, 84.007, 84.063, 84.268, 84.375, 84.376, 93.925 and 93.407	Student Financial Aid Cluster/U.S. Department of Education and U.S. Department of Health and Human Services
93.779	Centers for Medicare and Medicaid Services Research, Demonstration, and Evaluations: Primary Care Access and Stabilization Grant (PCASG)/ U.S. Department of Health and Human Services
93.887	Health Care and Other Facilities/U.S. Department of Health and Human Services
17.258	Workforce Investment Act (WIA) - Adult Program/U.S. Department of Labor

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Dollar threshold used to distinguish between Type A
and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

x yes no

(2) Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Significant Deficiencies

Finding No. 2011-01 – Schedule of Expenditures of Federal Awards - Reporting

Criteria

OMB Circular A-122 (A-122) establishes principles for determining the costs applicable to activities performed by non-profit organizations under grants, contracts, and other agreements with the federal government. In accordance with A-122, allowable expenditures must be adequately documented in the Schedule of Expenditures of Federal Awards (SEFA).

Condition

During our major program completeness and accuracy testing over the SEFA for federal grant revenue received by St. Bernard Health Center, Inc., we noted that the total allowable expenditures were not properly reported.

We also noted during our completeness and accuracy testing over the SEFA that the Federal Smart Grant and the following non-major programs, Emergency Shelter Grants Program, Supportive Housing Program, Housing Opportunities for Persons with AIDS, Assumption Community Hospital – Small Rural Hospital Improvement Grant Program, and St. Bernard – Medical Assistance Program: Greater New Orleans Community Health Connection, were not properly reported on the initial SEFA. Subsequent to our testing, the amount of allowable expenditures recorded on the general ledger management prepared was properly reflected on the SEFA.

Questioned Costs

None

Context

Procedures in place are not adequate to ensure the amounts reported as allowable expenditures for each program reconcile to the amount recorded on the general ledger.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Effect

The Medical Center did not initially report all federal expenditures that were recorded on the general ledger for in the SEFA.

Recommendation

We recommend that the Medical Center should establish policies and procedures to ensure adequate documentation relative to Federal expenditures related to each grant are maintained and that there is a timely reconciliation between allowable charges and amounts captured within the general ledger.

Management Response

Additional methods of communication will be implemented to ensure accounting is aware of all new grants. Accounting will work directly with program administrators to determine if the funding qualifies as a federal grant that should be reported on the SEFA. Also, upon receipt of grant reports from program administrators, accounting will review the supporting documentation to ensure the expenses reported are consistent with the federal grant reporting guidelines.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 2011-02 – Health Care and Other Facilities – Cash Management

Federal Program:

Health Care and Other Facilities

Federal Agency:

U.S. Department of Health and Human Services

CFDA #:

93.887

Federal Award Year:

July 1, 2010 through June 30, 2011

Criteria

OMB Circular A-133 establishes principles around cash management. The grant agreement between the Medical Center and the Department of Health and Human Services was for the purchase of equipment and specifically required that grant funds be drawn down as costs are incurred.

**OUR LADY OF THE LAKE HOSPITAL, INC.
AND AFFILIATED ORGANIZATIONS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Condition

During our test work related to the Health Care and Other Facilities grant, we noted that cash draws were made and funded to the Medical Center prior to the purchase of the equipment.

Questioned Costs

None.

Context

Controls in place were not adequate to ensure compliance with cash management requirements for the Health Care and Other Facilities program. Amounts totaling \$882,558 were drawn between 20 and 173 days prior to the related purchase of the federal equipment under the grant.

Effect

The Medical Center did not comply with the terms of the grant agreement regarding the cash draws for the equipment purchases.

Recommendation

We recommend that management strengthen the Medical Center's processes and controls to ensure that grant agreements are reviewed to ensure compliance with all requirements.

Management Response

The Medical Center will ensure future compliance to all grants by carefully reviewing all of the grant documents and establishing a detailed work plan that will be signed off by members of the management team and then executed appropriately. This work plan would include compliance as to the timeliness of requesting funds.

Our Lady of the Lake Hospital, Inc.
Summary Schedule of Prior Audit Findings
Year ended June 30, 2011

Finding No. 2010-01 Allowable Costs / Activities Allowed

Federal Program:

Workforce Investment Act (WIA)

Federal Agency

U.S. Department of Labor

CFDA #:

17.258

Federal Award Year:

July 1, 2009 through June 30, 2010

Criteria

OMB Circular A-122 (A-122) establishes principles for determining the costs applicable to activities performed by non-profit organizations under grants, contracts, and other agreements with the federal government. In accordance with A-122, direct costs charged to Federal grants must be for allowable costs.

Condition

During our test work related to WIA we noted that certain costs charged to the grant were unallowable. The amount of costs determined to be unallowable totaled \$15,334.

Questioned Costs

\$15,334

Context

Total program costs totaled \$361,352 for the year ended June 30, 2010.

Effect

The understanding of relevant allowable costs compliance requirements on the part of responsible Medical Center personnel was not sufficient to ensure compliance.

Recommendation

We recommend that management strengthen the Medical Center's processes and controls to ensure that the federal regulations are reviewed to ensure compliance with all requirements.

Finding Status

The college has submitted all payment vouchers for unallowable costs to be returned to the respective WIA offices involved. We have now implemented an internal audit process where all students who received WIA funding are reviewed at the end of each semester to make sure costs charged are allowable.



KPMG LLP
Suite 1700
450 Laurel Street, Suite 1700
Baton Rouge, LA 70801

November 4, 2011

The Audit Committee
Our Lady of the Lake Hospital, Inc.
Baton Rouge, Louisiana

Ladies and Gentlemen:

We have audited the consolidated financial statements of Our Lady of the Lake Hospital, Inc. and affiliated organizations (the Medical Center), as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. However, as discussed below we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Pension Benefits Paid

In agreeing pension footnote support, as provided by the Medical Center's consulting actuaries, to the consolidated financial statements, we noted that the Medical Center paid certain benefits on behalf of the pension plan. Payment of these benefits were not properly recorded as a pension plan liability back to the Medical Center and resulted in an overstatement of plan assets in the prior period. We proposed, and management recorded an adjustment to correct this overstatement of plan assets and properly reflect the Medical Center's net pension obligation on its consolidated financial statements. We recommend that the Medical Center establish



The Audit Committee
Our Lady of the Lake Hospital, Inc.
November 4, 2011
Page 2 of 4

procedures to reconcile plan assets to the actuary report to ensure net plan assets are appropriately reflected in the Medical Center's books and records.

Response

We concur with the findings and have revised the current process for paying benefits on behalf of the pension plan.

Schedule of Expenditures of Federal Awards (SEFA)

During our testing of the completeness and accuracy of the Medical Center's SEFA, we noted that certain programs were erroneously omitted and other programs were improperly reported due to a lack of reporting knowledge by program administrators or due to errors in the Medical Center's accumulation of expenditures. We recommend that the Medical Center develop processes and procedures and implement internal controls to ensure the proper accumulation and reporting of all federal funds in the SEFA.

Response

Additional methods of communication will be implemented to ensure Accounting is aware of all new grants. Accounting will work directly with program administrators to determine if the funding qualifies as a federal grant that should be reported on the SEFA. Also, upon receipt of grant reports from program administrators, Accounting will review the supporting documentation to ensure the expenses reported are consistent with the A-133 reporting guidelines.

Pension Census Data

During our verification of census data provided to Aon Hewitt, the Medical Center's consulting actuary for its defined benefit pension plan, we noted that the census data was not appropriately reconciled to the Medical Center's payroll system. As a result, we proposed, and management recorded, an adjustment to the consolidated financial statements as of June 30, 2011. We recommend that management establish processes and procedures to ensure all data provided to the actuaries has been properly reconciled to underlying data and reviewed by someone other than the preparer.

Response

Interface files have been updated to include all earnings and new review processes were implemented to ensure earnings data for the census report are reconciled to Lawson's payroll data.

None of the significant deficiencies described above is believed to be a material weakness.

Although not considered to be significant deficiencies or material weaknesses, we also noted certain matters involving internal control and other operational matters that are presented for



The Audit Committee
Our Lady of the Lake Hospital, Inc.
November 4, 2011
Page 3 of 4

your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Sale of St. Bernard

Upon the sale of St. Bernard Health Center, the Medical Center disposed of all assets; however, in accordance with the Equipment Use Agreement with St. Charles Community Health Center, Inc. a portion of the assets (those originally purchased with federal funds) were to remain titled in the Medical Center's name and on the Medical Center's books and records. We recommend that the Medical Center develop processes and procedures and implement internal controls to ensure the proper accounting and reporting of transactions in accordance with relevant agreements.

Response

Assets identified in the Equipment Use Agreement will be added back to the Medical Center's books until the equipment is transferred to the new hospital.

Workforce Investment Act Program

In accordance with OMB Circular A-133, there should be internal controls over the compliance requirements for each federal program. During our test work related to the Workforce Investment Act (WIA), there was a lack of segregation of duties and no formal reconciliations performed over the WIA program. We noted that the administer of the program, the Bursar, receives eligibility forms, determines the students needs for funding, posts the amounts to the student's accounts, invoices the WIA boards, and receives the reimbursement. We also noted that Our Lady of the Lake College (the College) does not formally reconcile the amount of funding received against the invoice/bill and the amount posted to the student's account. There are bank reconciliations over total cash that are performed at the College that help mitigate the risk of noncompliance with cash management and during the test work there were no findings to be reported under OMB Circular A-133 related to the activities allowed and allowable costs and cash management compliance requirements. We recommend that the client determine the cost benefit of segregating some of the duties performed by the Bursar as well as begin a formal reconciliation process to ensure that all invoices are collected and the proper amounts are posted to each student's account.

Response

The College agrees with the finding. The following are the steps the College has taken immediately to segregate and install proper control to ensure compliance with activities allowed and allowable costs and cash management over the Workforce Investment Act (WIA) program.

First, the Louisiana Department of Labor (LDOL) report compliance is immediately assigned to the Office of Enrollment Management because this is registration report compliance. Second, the



The Audit Committee
Our Lady of the Lake Hospital, Inc.
November 4, 2011
Page 4 of 4

College will add a half-time (0.5 FTE) staff person effective immediately in the Bursar's Office. This half-time position is responsible for invoicing, documenting, and maintaining regular contacts with the respective WIA offices. This position will segregate the duties currently performed by the Bursar. The Bursar will properly ensure payments received at the end of each semester. Any outstanding receivables that need to be collected on will be communicated in a timely manner by the Bursar to the new half-time staff person. Third, the College Accountant, as an independent third party outside of the Bursar's Office will perform the current processes as he has been, to ensure that all invoicing is correct and that all payments have been received as well as all reimbursements to the respective WIA offices have been made.

Fixed Asset Depreciation

During our testwork of depreciation expense, we noted that when an asset is added to the fixed asset system, the in-service date entered is the first day of the month that the invoice is paid, as opposed to the date the asset was placed into service. Depreciation should commence when the asset is ready for its intended use. Use of the invoice payment date as an asset's in-service date could misstate depreciation expense during the period. We recommend that the Medical Center begin using the actual date the asset was placed into service as the date depreciation begins in accordance with generally accepted accounting principles.

Response

A project team has been established with our information technology department. A new process has been identified and is currently being tested in Lawson's fixed asset system.

The Medical Center's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Audit Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP